

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

--	--	--	--	--	--	--	--	--	--

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2019/2020

BAC 2684 – FINANCIAL STATEMENT ANALYSIS

(All Sections / Groups)

11 JUNE 2020
9.00 am. – 12.00 pm.
(3 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of 5 pages (excluding cover page) with 4 Questions only.
2. Answer **ALL** Questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

1. Besides funding from equity investors, companies raise funds through borrowings.

(a) Explain what is debt financing.

(2 marks)

(b) What is the difference between long-term debt and short-term debt. Explain with relevant examples.

(2 marks)

2. Budget Air Services Sdn Bhd is a medium size airline company which provides low cost domestic flight services between states in peninsular Malaysia; Sabah and Sarawak. On March 1 2017, the company entered into a lease agreement with Cessna Aircraft for a 12-seater second hand aircraft for an annual lease rental of RM 50,000. The term of the lease is for 5 years and lessor's interest rate implicit in the lease is 8%. The lessee's incremental borrowing rate is 8.25%. The useful life of this aircraft is 5 years and there is no residual or salvage value. The fair value of the leased aircraft equals the present value of rentals.

(Annuity tables indicate that the present value of an annual lease rental of RM1 at 8% interest rate = RM3.993. Round up all decimal points in your calculations.)

Required

(a) Prepare a lease amortisation schedule (table form) for the above lease for the five-year lease term.

(10 marks)

(b) Prepare accounting entries to record the lease for the **1st Year** only.

(2 marks)

(c) Construct a table showing the payments of interest and principal made every year for the five-year lease term.

(4 marks)

(d) Construct a table showing expenses charged to the income statement for the five-year lease term. Show columns for (1) depreciation, (2) interest and (3) total expense.

(5 mark)

(Total 25 marks)

Continued...

QUESTION 2

1. Explain the difference between income and cash flow.
(4 marks)
2. What is the purpose underlying the calculation and reporting of earnings per share (EPS)?
(4 marks)
3. Polymer Bhd's capital structure for the years 2018 and 2019 is as per the table below:

December 31	Year 2018	Year 2019
Common stock	100,000	100,000
Convertible preferred stock	20,000	20,000
8% convertible bonds	RM 1,500,000	RM 1,500,000

In year 2019, Polymer paid dividends of RM1.00 on its common stock and RM 2.60 per share on its preferred stock. The preferred stock is convertible into 30,000 shares of common stock. The 8% convertible bonds are convertible into 35,000 shares of common stock. Net income for the year ended December 31, 2019 is RM 295,000. The income tax rate is 40%

Required

- (a) Compute the basic earning per share for the year ended December 31, 2019.
(5 marks)
 - (b) Compute the diluted earnings per share for the year ended December 31, 2019.
(12 marks)
- (Total 25 marks)**

QUESTION 3

1. Explain the capital structure of a company. Why is the analysis of a company's capital (financial) structure important?
(4 marks)
2. What is meant by financial leverage? Why would financial leverage be advantageous to the company in certain cases?
(3 marks)

Continued...

3. Gemini Textiles Bhd is a leading company in Malaysia for textile products. Excerpts from the company's annual report for the fiscal year ended December 31 2017 are as per the exhibit below. Gemini Textiles Bhd paid cash dividends of RM 0.45 per common share in the financial year 2017 and an average of 529,000 shares were outstanding during the year. Assume that Gemini Textiles has no stock options or convertible securities. The company's market price on December 31,2017 was RM 18.93 per share.

Income statement for the year ended December 2017	
('000)	RM
Net sales	14,549
Cost of sales	9,275
Gross profit	5,274
Operating expenses	3,836
Operating income	1,438
Interest expenses, net	69
Income before income taxes	1,369
Income taxes	536
Net Income	833

Balance Sheet ('000)		
	Dec 31, 2017	Dec 31,2016
Assets	<u>RM</u>	<u>RM</u>
Cash & cash equivalents	1,885	1,561
Inventories	1,615	1,620
Other current assets	809	745
Total current assets	4,309	3,926
Property & equipment	2,523	2,563
Other assets	590	576
Total assets	7,422	7,065
Liabilities & Stockholders' equity		
Current liabilities	2,128	2,095
Long-term liabilities	2,539	890
Total liabilities	4,667	2,985
Stockholders' equity	2,755	4,080
Total liabilities & stockholders' equity	7,422	7,065

Required

Compute the following financial ratios for the financial year 2017

- (a) Current ratio.

(2 marks)

- (b) Total debt to equity.

(2 marks)

Continued...

- (c) Gross profit rate. (2 marks)
- (d) Return on sales. (2 marks)
- (e) Return on stockholders' equity. (2 marks)
- (f) Earnings per share. (2 marks)
- (g) Price earning. (2 marks)
- (h) Dividend yield. (2 marks)
- (i) Dividend payout. (2 marks)
- (Total 25 marks)**

QUESTION 4

- The statement of cash flow format comprises of three (3) major activities. List and explain each of the three (3) activities. Which of the activity reflects the business operations of a company? (7 marks)
- The following is the income statement and balance sheet that is taken from the records of Roxy (M) Sdn Bhd.

Roxy(M) Sdn Bhd		
Comparative Balance Sheet at June 30, 2017 & 2018		
	2017 RM	2018 RM
Assets		
Cash	270,000	333,000
Accounts receivable	126,000	144,000
Investments	-	54,000
Plant & equipment	180,000	189,000
Accumulated depreciation	(54,000)	(57,600)
Land	36,000	54,000
Total assets	558,000	716,400

Continued...

Liabilities & equity		
Accounts payable	72,000	90,000
Mortgage payable	108,000	-
Bonds payable	-	90,000
Preferred stock	36,000	-
Common stock	180,000	288,000
Retained earnings	162,000	248,400
Total liabilities & equity	558,000	716,400

Roxy(M) Sdn Bhd Income Statement for the year ended June 30, 2018	
	RM
Sales	920,000
Less: Cost of sales	(620,000)
Gross margin	300,000
Less: Operating expenses	(177,600)
Net Income	122,400

Additional transactions for the year were as follows:

- (a) Sold equipment costing RM21,600 with accumulated depreciation of RM 16,200 for RM 3,600.
- (b) Issued bonds for RM 90,000 on December 31.
- (c) Paid cash dividends of RM 36,000
- (d) Retired mortgage of RM 108,000 on December 31.

Required

Prepare a statement of cash flow for Roxy(M) Sdn Bhd using the indirect method.

(18 marks)

(Total 25 marks)

(Grand Total 100)

End of Paper